

# **PALTEK**

*(OTC:7587)*

*Results Explanatory Meeting*

*Fiscal Year 2002*

## **Contents**

- Semiconductor Market Overview
- Fiscal Year 2002 Performance
- Fiscal Year 2003 Projections
- Business Strategy

*Part I*

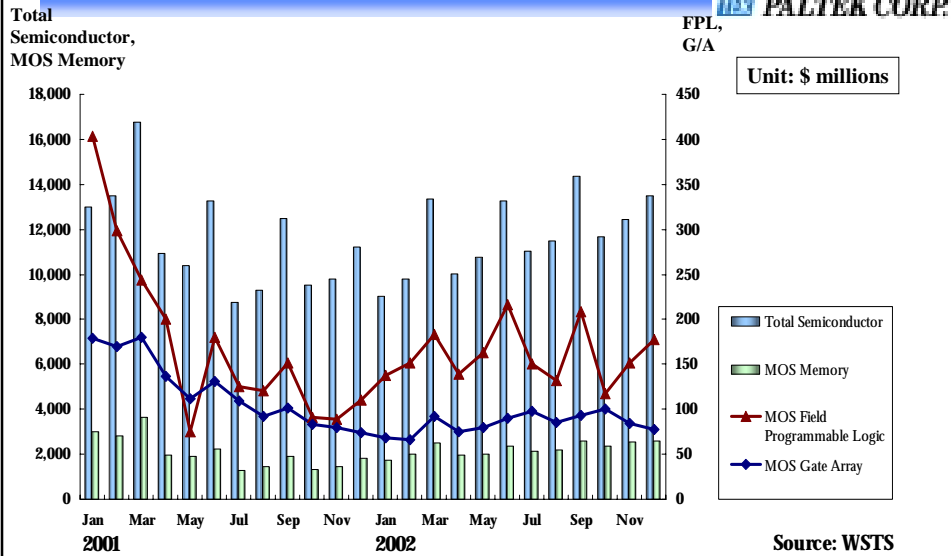
*Semiconductor Market Overview*

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**Worldwide Semiconductors**

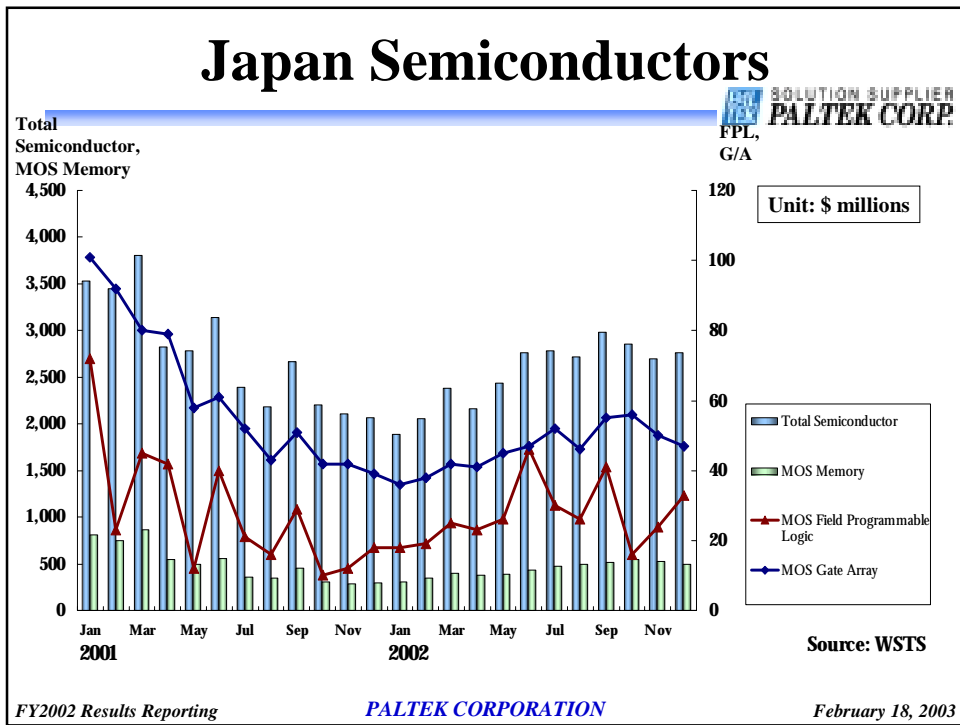



Source: WSTS

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FPL,  
G/A



















# Part II

## Fiscal Year 2002 Results

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## Business Environment for FY2002

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	Macroeconomic factor	Customers	
		Main Cust.	Broadbase
Market conditions	 	 	 
		Applications	
		Communication	Consumer
Market conditions	 	 	 
		Products	
		PLD	Analog
Market conditions	 	 	 

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## General Overview of FY2002

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- Sales drop a y/y 10.5% Sales have bottomed out in Q2 and shows the signs of recovery.
  - Weak Market: communication infrastructure
  - Strong Market: VoIP, digital broadcasting equipments, mobile phones, digital cameras, Broadbase
- Operating profit ratio improved from 2.1% to 4.3%.
  - Maintained the gross margin ratio as the previous year.
  - S.G.&A. are reduced by about 20%. (In particular, personnel cost is reduced drastically by restructuring.)
- Net income returned to positive figures
  - Cost for reorganization of PALTEK group has written off as a loss.
  - It is less than previously forecast.

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## Year End Result (FYE2002)




¥ millions (consolidated)

	FY2002 Result	FY2002 Previous Forecast (as of 12.19.2002)	Increase/ Decrease Percentage	FY2001 Result	Increase/ Decrease Percentage
Sales	15,614	15,545	0.4%	17,443	△10.5%
Operating Profits	660	693	△4.7%	370	78.1%
Operating Profits Ratio	4.2%	4.5%		2.1%	
Recurring Profits	762	831	△8.2%	239	218.2%
Net Profits	21	136	△84.1%	△459	—
EPS	1.8 yen			△38.8 yen	
ROA	6.5%			1.8%	
ROE	0.3%			△5.5%	

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## Topics



- To cultivate the new markets
  - **Several New Distribution Agreements**
    - BRECIS Communications Corp. (PALTEK) — processor for networking
    - Ashley Laurent, Inc. (PALTEK) — security software
    - TransChip Inc. (PALTEK) — image sensors
- To focus on the new markets
  - **Termination of several Distribution Agreement**
    - Infineon technologies Japan (PALTEK)
    - Fairchild Semiconductor (Alpha electronics)
    - Mentor Graphics Japan (Spinnaker)
- To streamline the business operation
  - **Amortization of consolidation goodwill related to Spinnaker Systems, Inc.**
    - Restructured (reduced its workforce by 40%, and moved the headquarters to Shin-Yokohama)
    - Product line reorganized
  - **Resolution of Dissolution and Liquidation of HYPER-PALTEK**
  - **Termination of the Joint Venture Agreement with MARUBUN**

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## Accounting Administration

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Administrations for Subsidiaries	¥ millions	Account title	Reasons
Administration for Spinnaker Systems	△508	Extraordinary losses (Amortization of goodwill)	Lump-sum amortization of consolidation goodwill related to Spinnaker Systems.
Administration for Cygnet Technologies	△386	Extraordinary losses (loss on liquidation of subsidiaries)	Expense incurred in relation to the liquidation of Cygnet Technologies. All cost related to liquidation was fully expensed this year.
	638	Income tax-deferred	The tax effects of the recognition of losses related to liquidation of Cygnet Technologies.
Other administrations	¥ millions	Account title	Reasons
depletion of the investment securities	△24	Extraordinary losses (loss on sales of investment securities)	Depletion of the holding investment securities.
loss on devaluation of the land which planned to sale	△ 22	Extraordinary losses (loss on devaluation of fixed assets)	The book value of recreation facilities which planned to sale has substantially declined.
Disposal of fixed assets	△ 10	Extraordinary losses (loss on disposal of fixed assets)	The disposal due to revision of the fixed assets.

## Year-on-Year Growth

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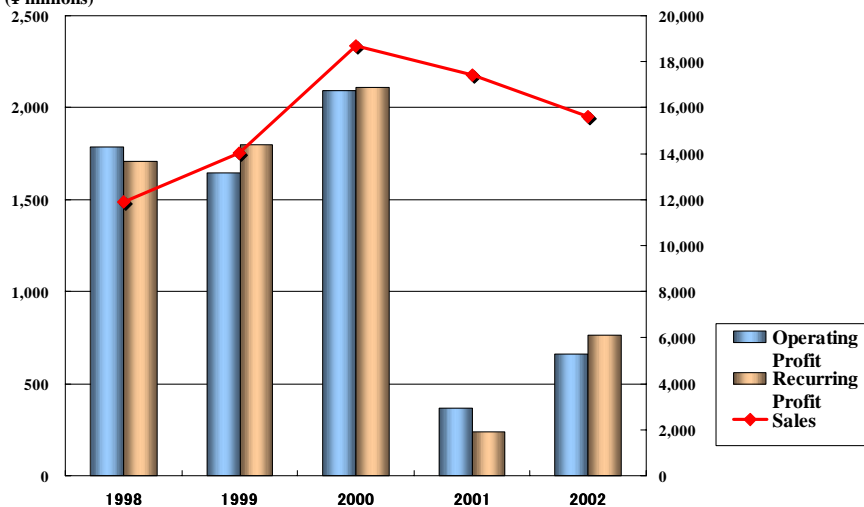
Operating Profit/  
Recurring Profit

(consolidated)

Sales

(¥ millions)

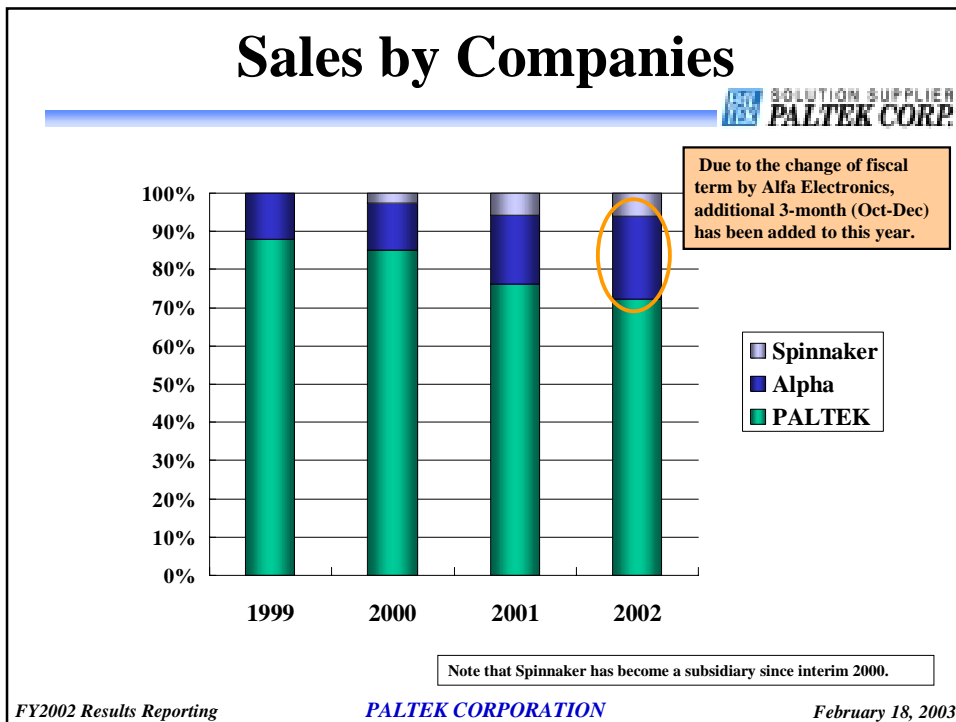
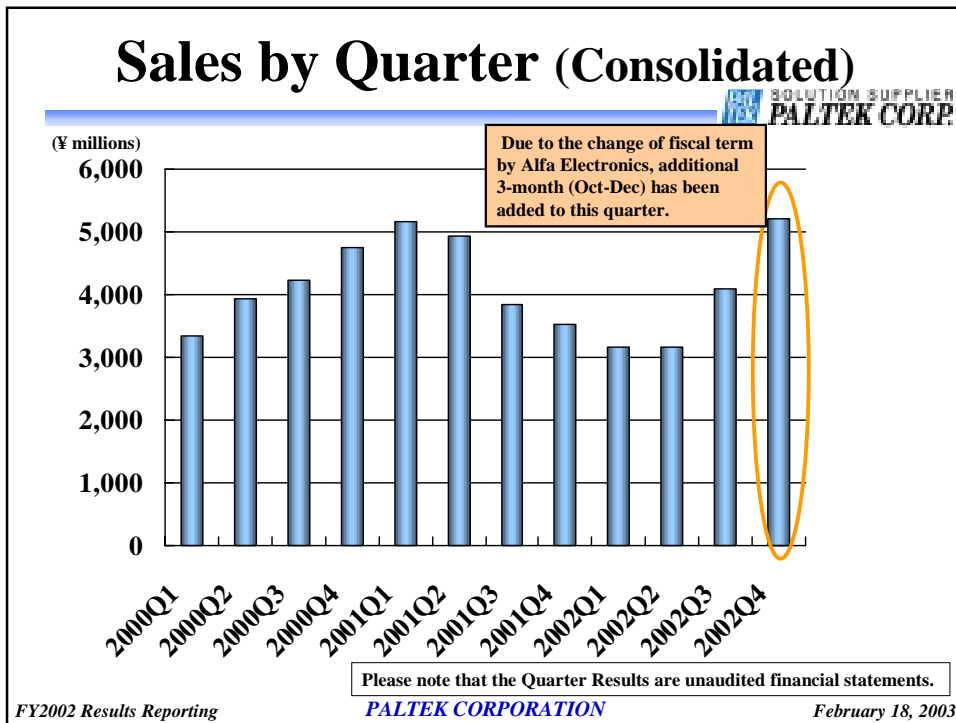
(¥ millions)

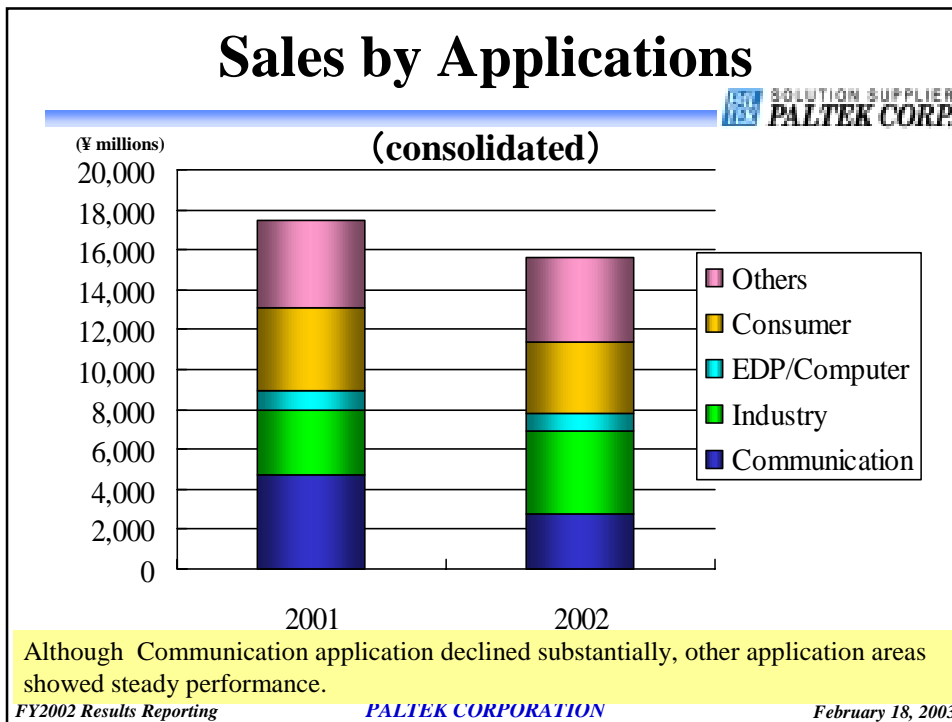
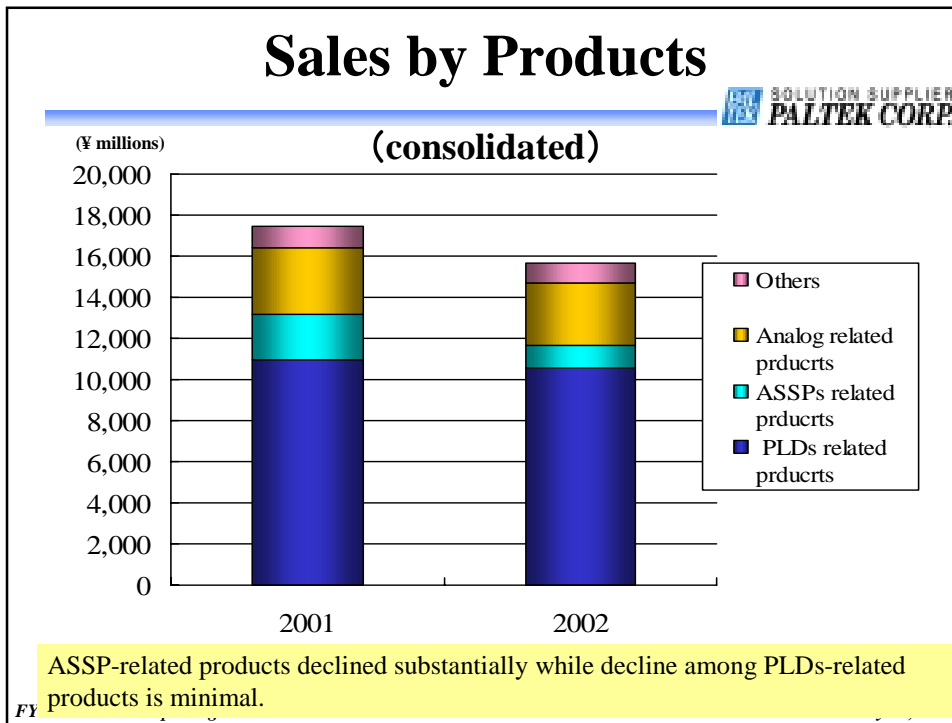


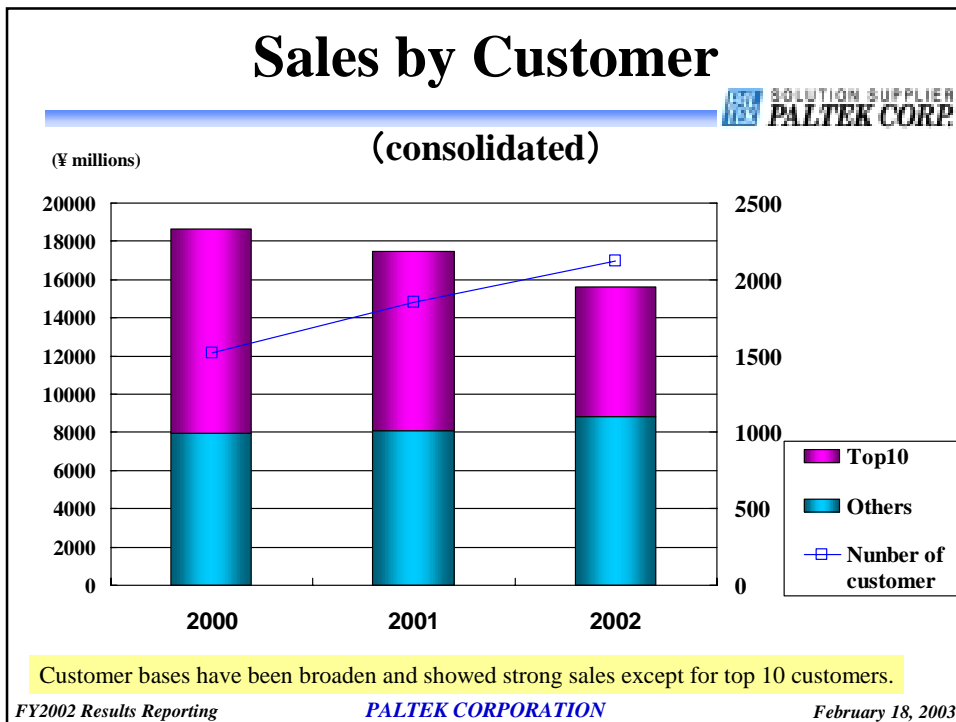
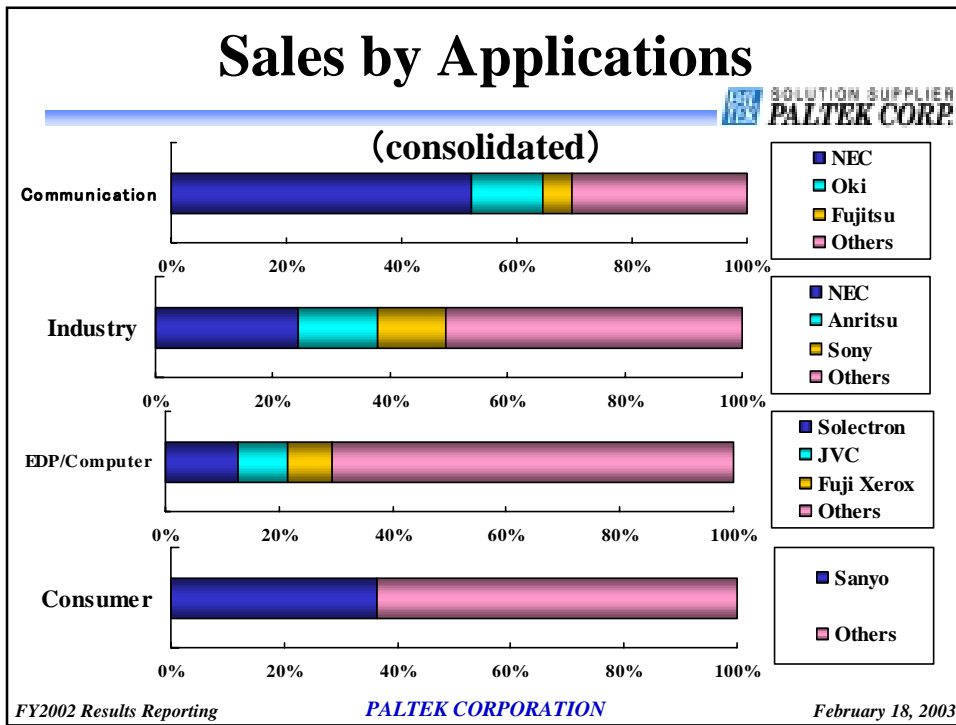
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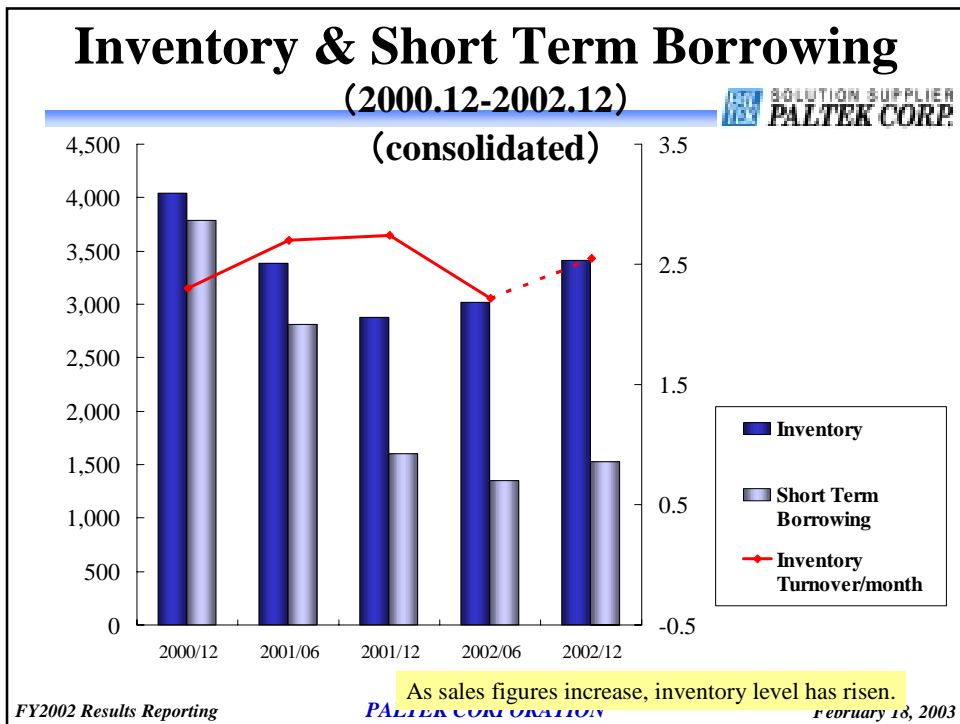
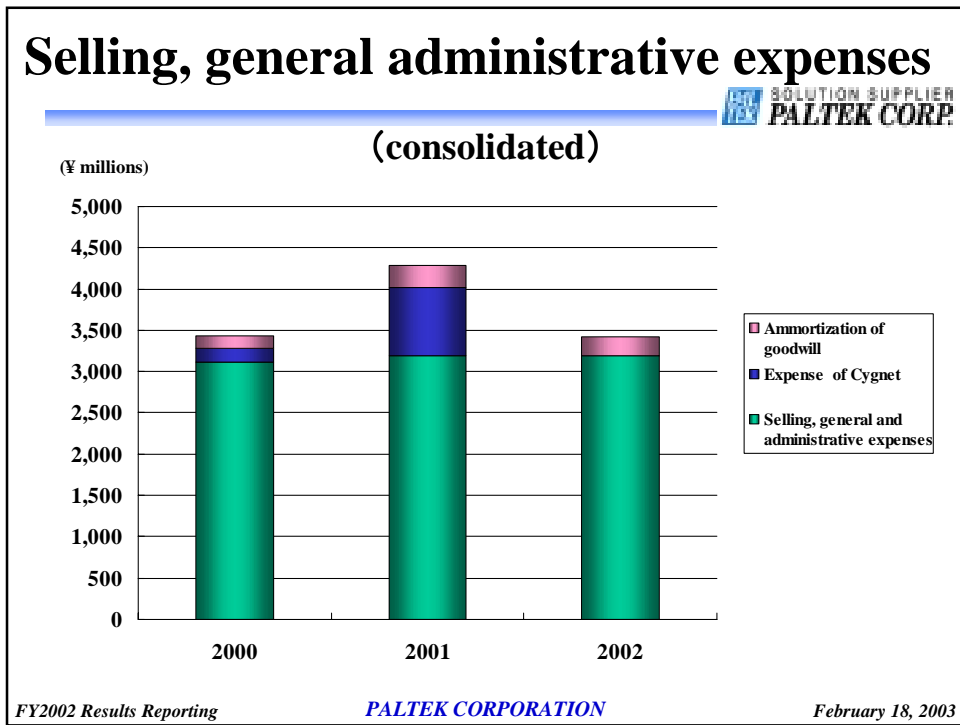
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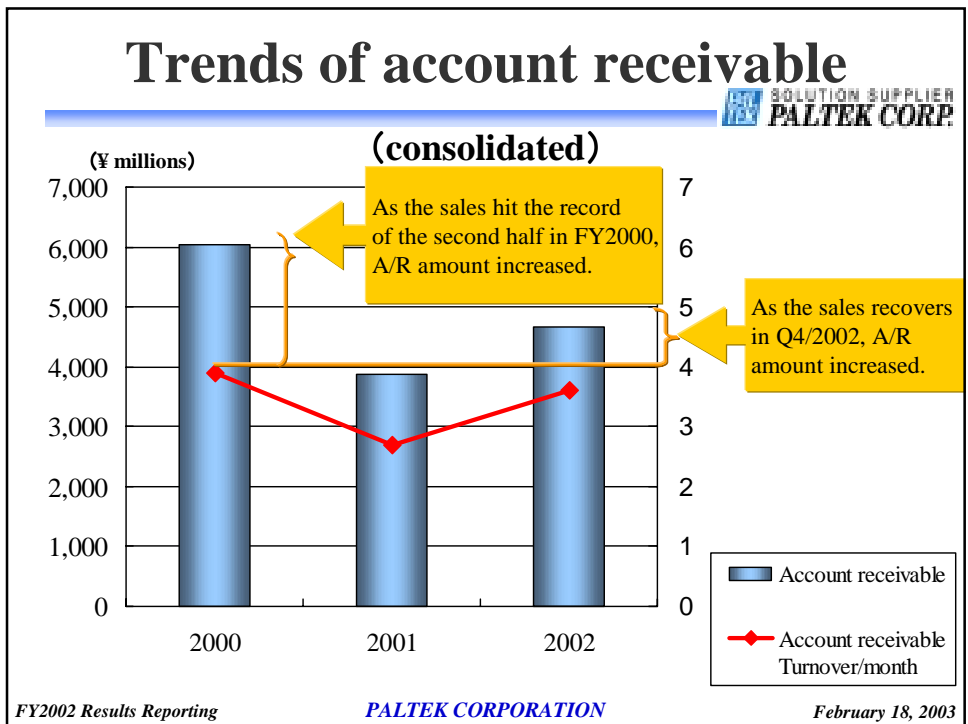
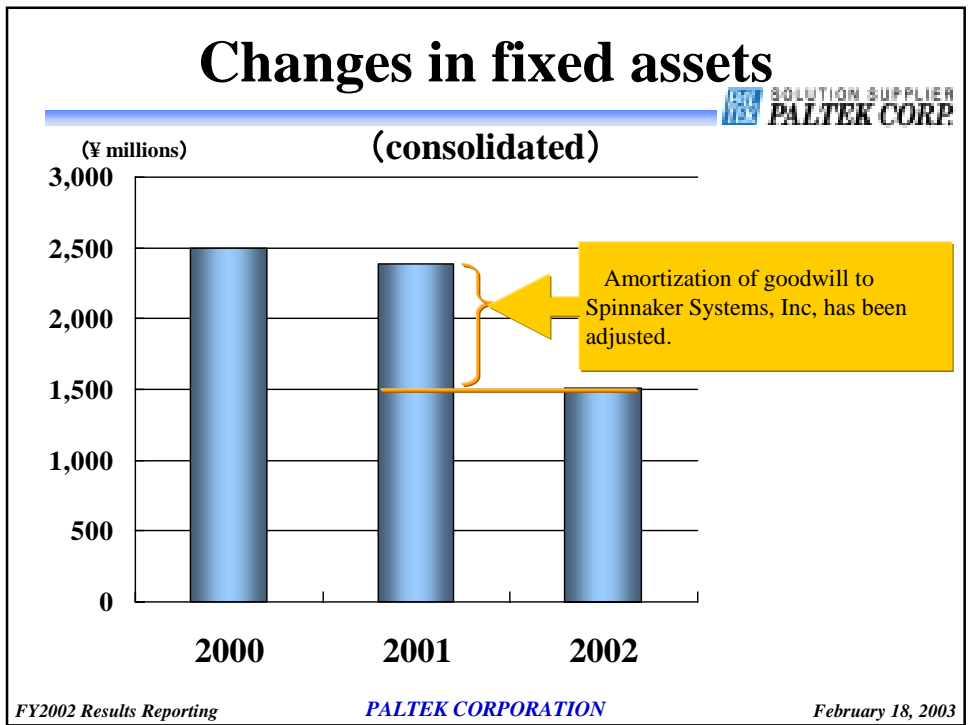
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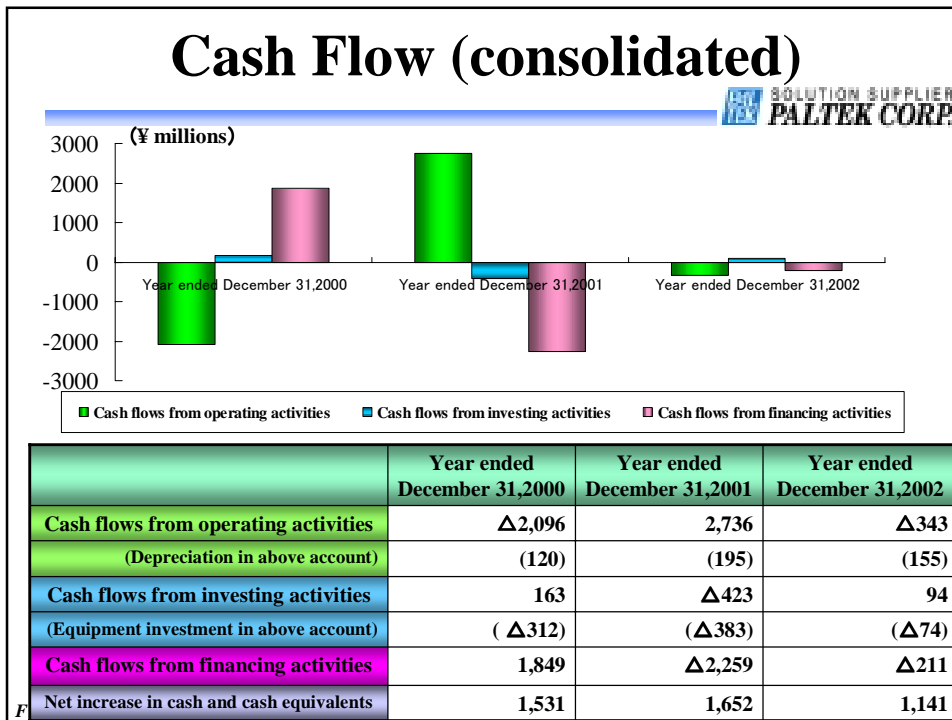












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## *Part III*

### *Fiscal Year 2003 Projections*

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## Assumptions for the forecast



	Macroeconomic factor	Customers	
		Main Cust.	Broadbase
Assumptions			
	Applications		
	Communication	Industry	Consumer
Assumptions			
	Products		
	PLD	ASSP	ANALOG
Assumptions			

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## Forecast of FY2003



- **Sales expects to increase a y/y 5.3%**
  - Sales figures expect to see moderate recovery, but overall market prospect is still uncertain.
  - PLD business will recover favorably, in particular in the fields of digital broadcasting application and among Broadbase customers.
  - Inventory to be increased as sales rise while keeping inventory turnover at 2.5 months level.
- **Operating income expects to improve compared to previous year: 4.3% 5.7%**
  - Gross margin ratio is expected to drop by 3 points.
  - SG&A is expected to fall helped by drastic adjustment in goodwill as the company reorganized group companies since 2002.
- **Net income for the year expects to improve drastically.**
  - Reorganization of group companies will contribute to drastic improvement

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## Year End Projections (FYE2003)

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(¥ millions) (consolidated)

	FY 2003 Forecasts	FY 2002 Results	Year-on-Year Growth
<b>Sales</b>	¥ 16,436 M	¥ 15,614 M	5.3%
<b>Operating Profits</b>	¥ 884 M	¥ 660 M	33.9%
<b>Operating Profits ratio</b>	5.4%	4.3%	
<b>Recurring Profits</b>	¥ 834 M	¥ 762 M	9.4%
<b>Net Profits</b>	¥ 467 M	¥ 21 M	2054.0%
<b>EPS</b>	39.4 yen	1.8 yen	—

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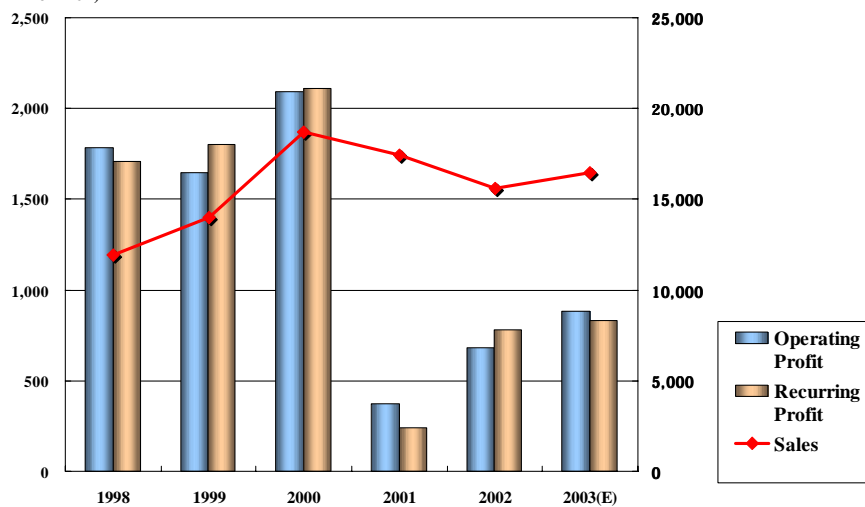
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## Year-on-Year Growth

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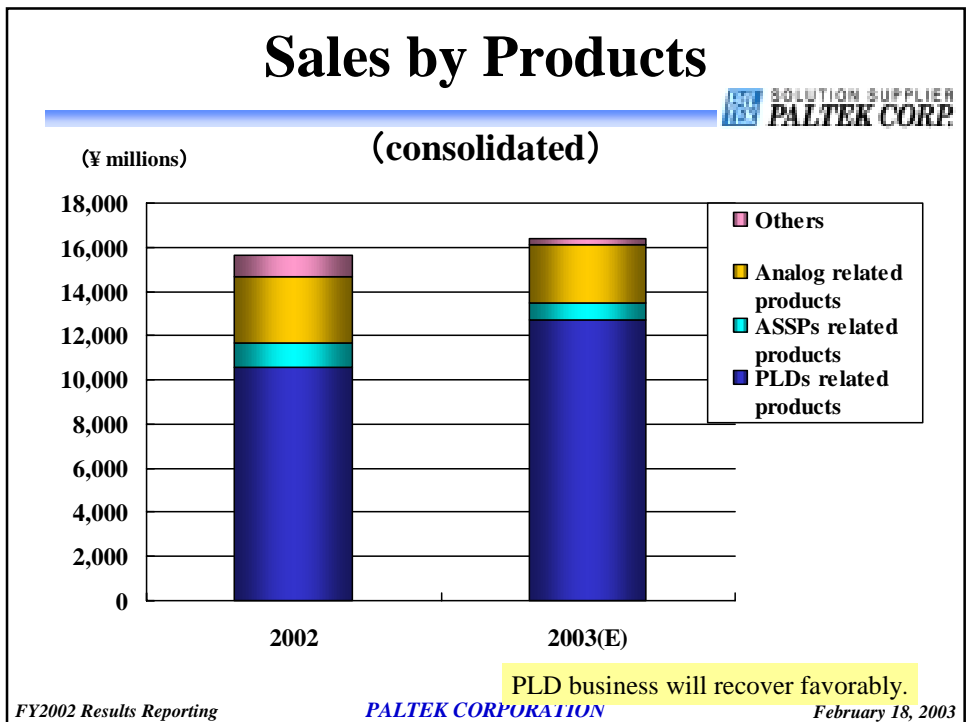
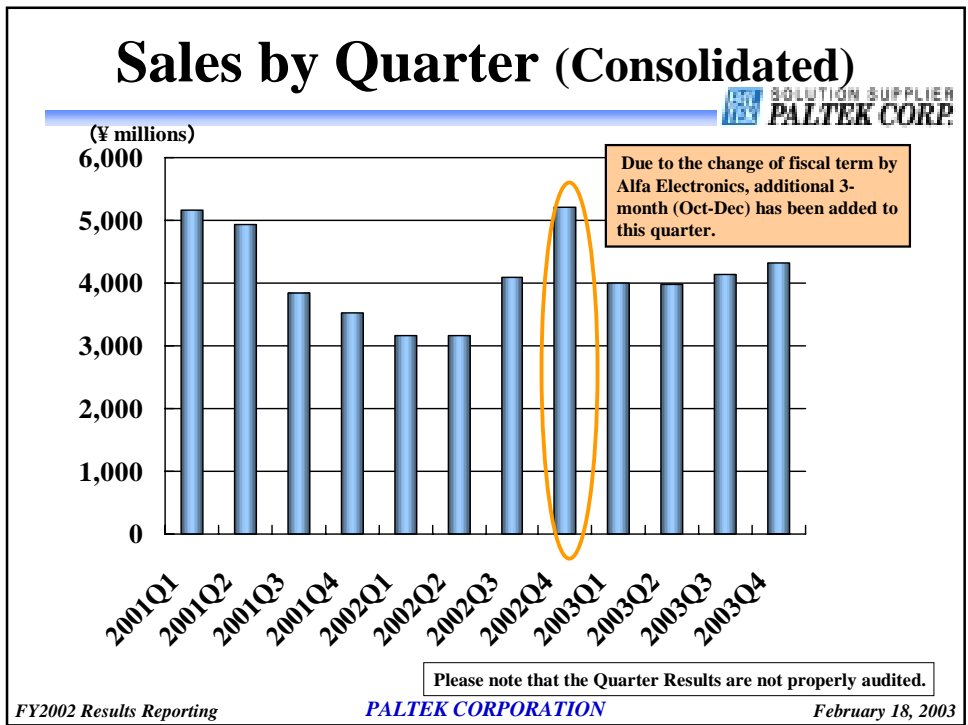
Operating Profit/  
Recurring Profit  
(Million Yen) (consolidated) Sales  
(Million Yen)

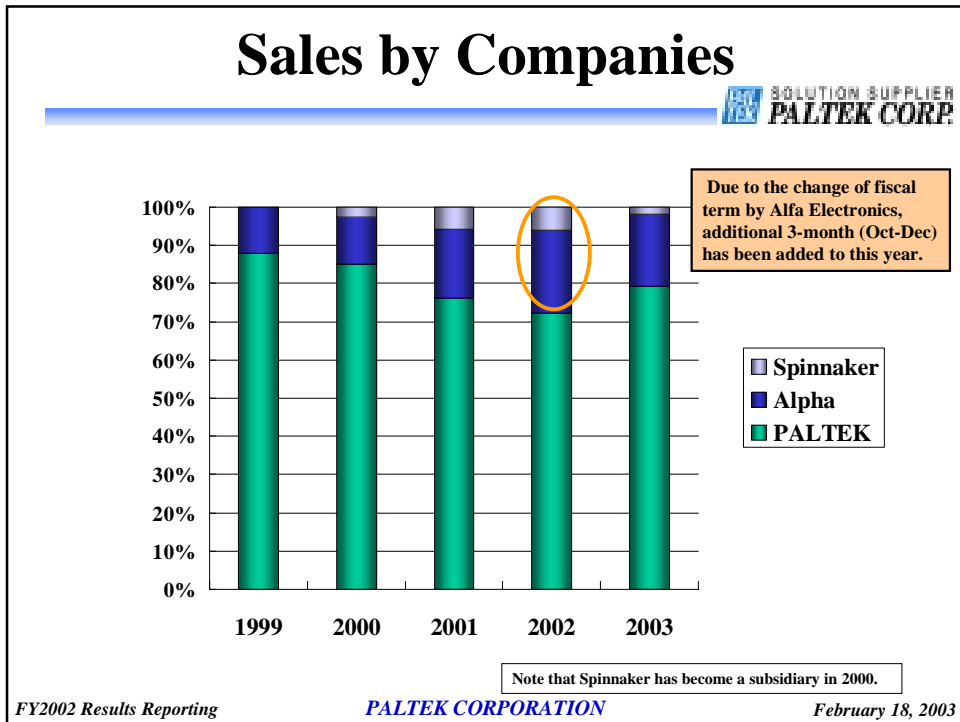
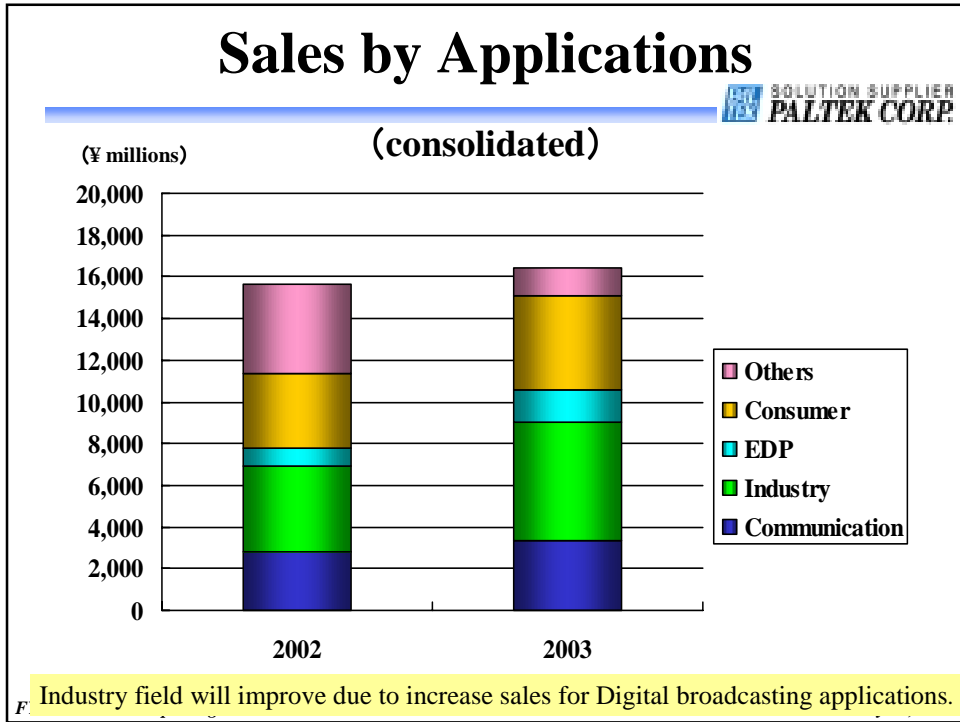


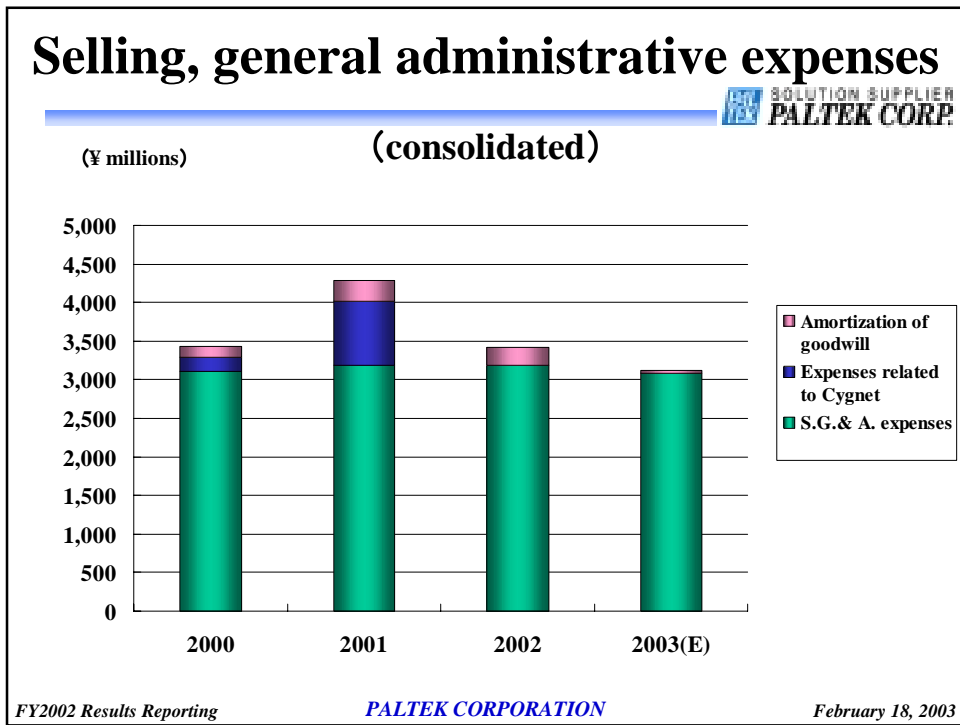
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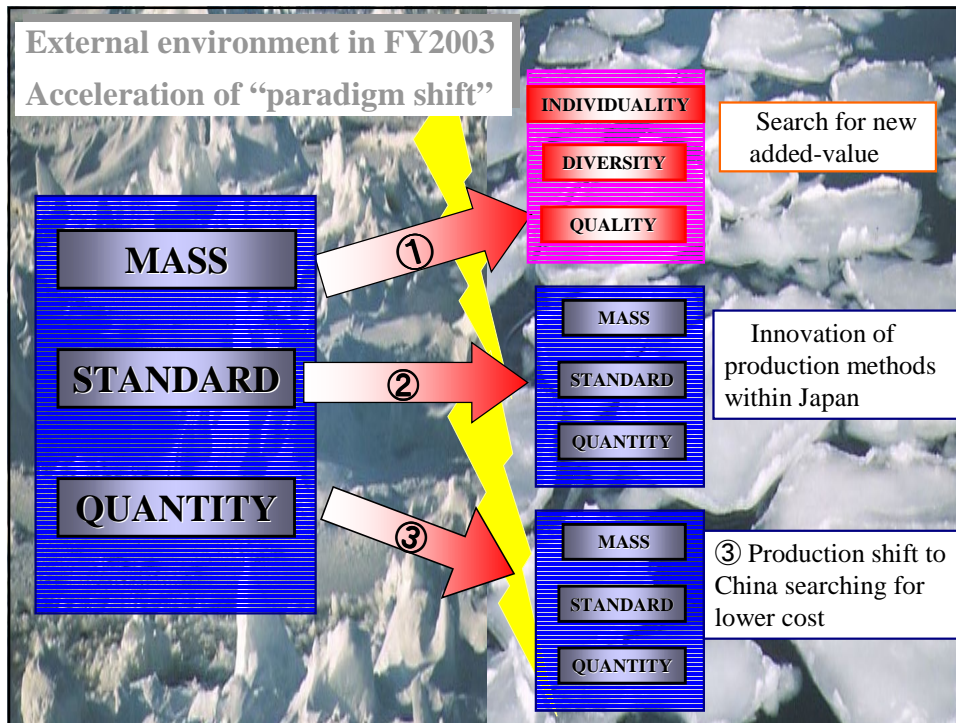


## *Part IV*

# *Business Strategies*

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## Future Business Development

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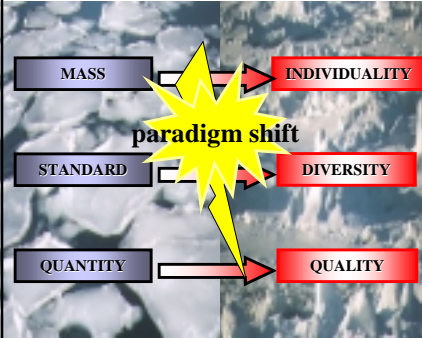
1. Strengthen Fundamental PLD Business  
(①, ②)

2. Provide Solutions to Emerging Markets (①)

3. Establish New Business Models with Venture  
Companies (①)

# 1. Strengthen Fundamental PLD Business

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**Keyword is**  
**“User-configurable”**

- Configurable at users
- More added-value
- Time-to-Market

↓

**PLDs hit the mainstream**

- Stratix and Cyclone families are well-received by market due to their high performance, high speed, and cost performance capabilities.
- Broad range of standard IP offerings enable SoPC.

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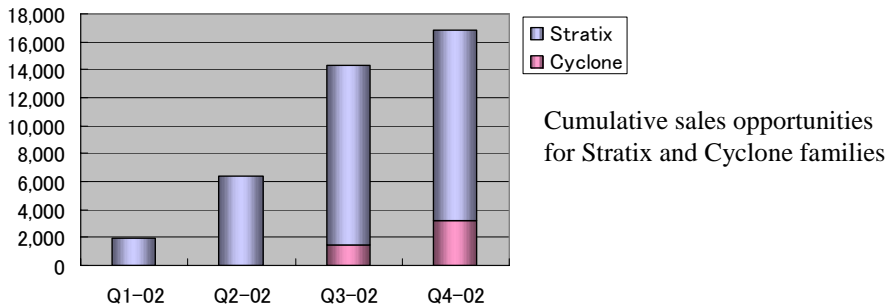
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# 1. Strengthen Fundamental PLD Business

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- ◆ PALTEK takes advantage of paradigm shift
- ① Customer Database System to understand individual customers' needs
  - ② Marketing Process System to manage individual projects
  - ③ Logistics Management System to manage distribution processes



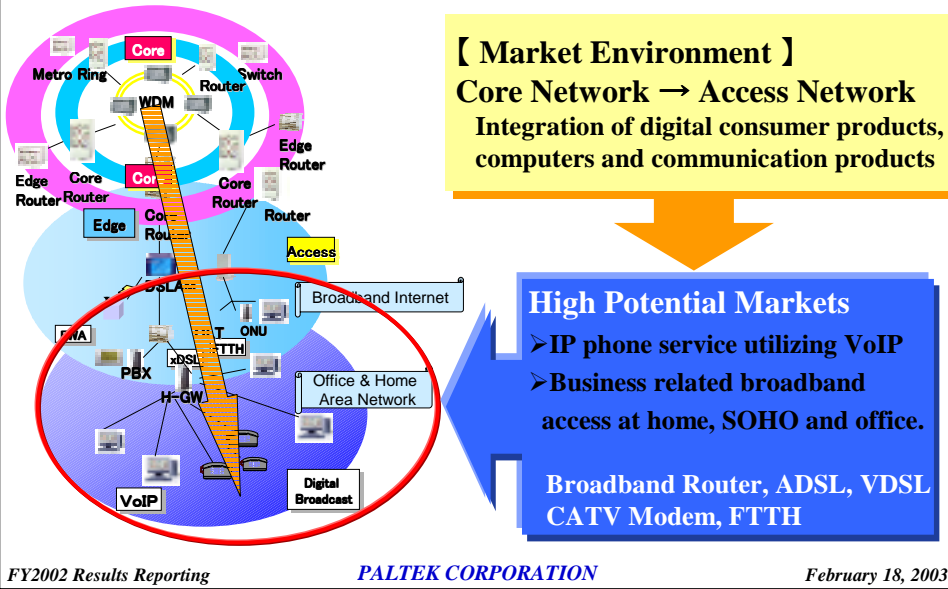
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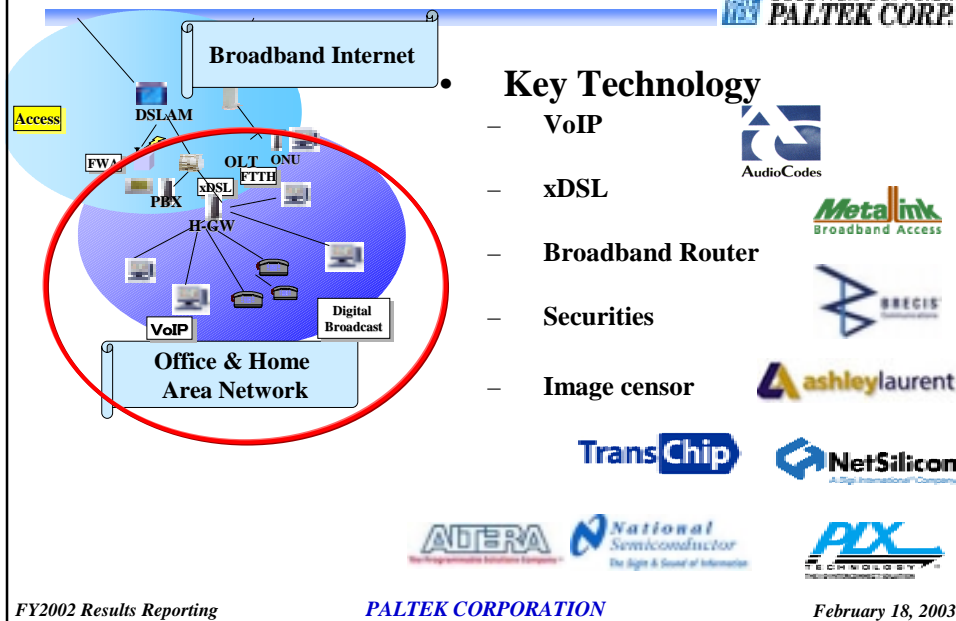
## 2. Provide Solutions to Emerging Markets

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## Key Technologies in Emerging Markets

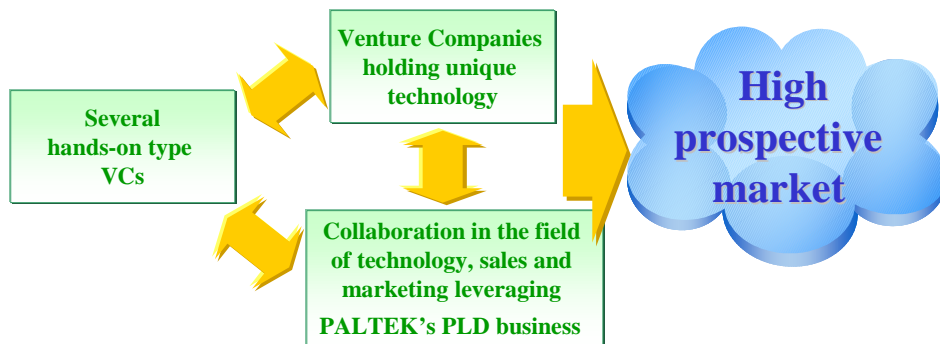
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### 3. Establish new business models with venture companies

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Discover and foster VBs(venture businesses) holding unique technology in collaboration with VC(venture capital).. Such VBs offer good potentials to be good customers or/and partners.



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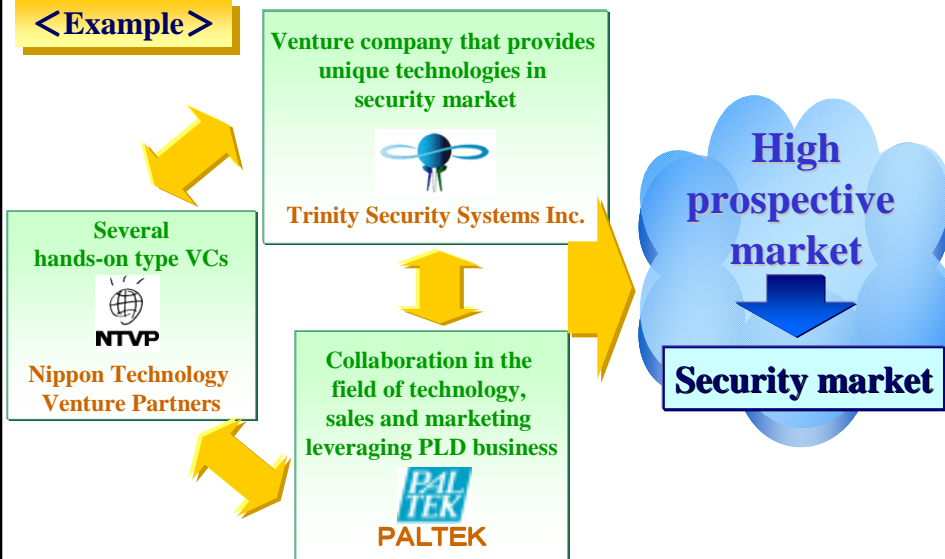
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### 3. Establish new business models with venture companies

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<Example >



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## Sample of product of Trinity

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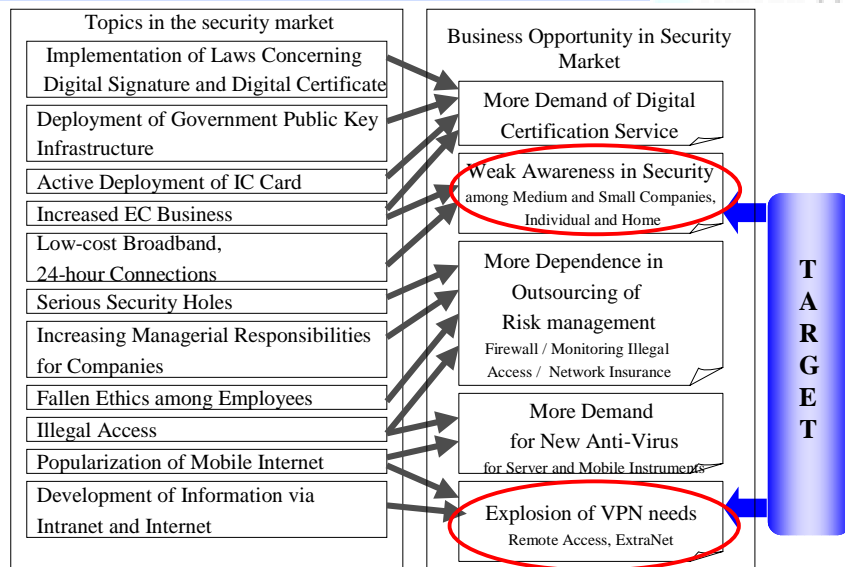
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## Business Opportunity in the Security Market

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This presentation may provide projections or other forward-looking statements regarding future events and/or future financial performance. We wish to caution you that such statements are just predictions and that actual events or results may differ materially due to changes in the market and/or other business conditions.

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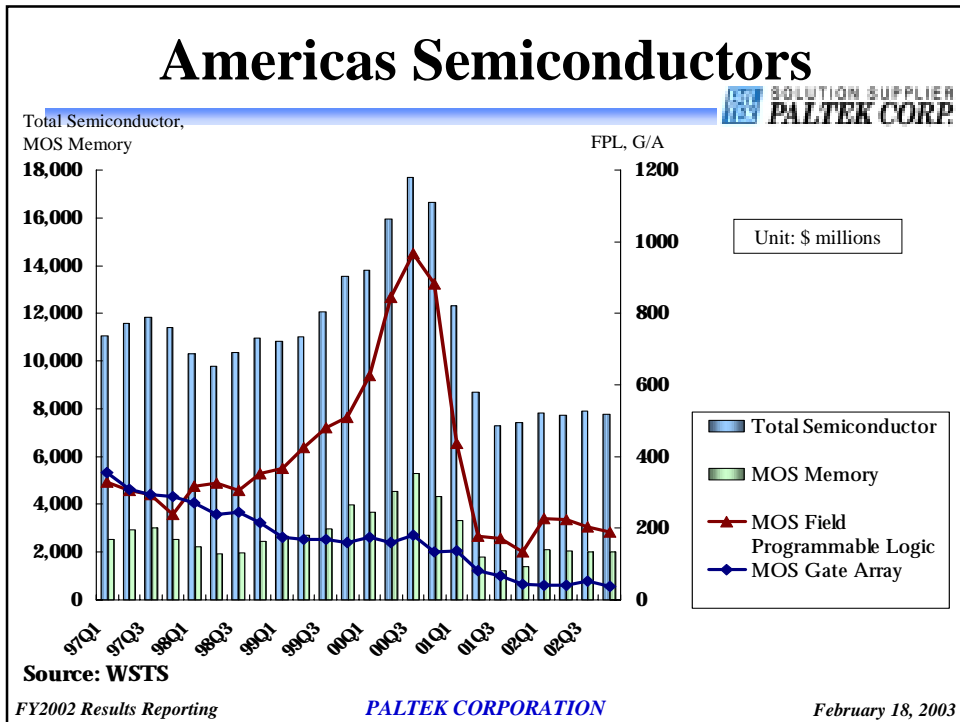
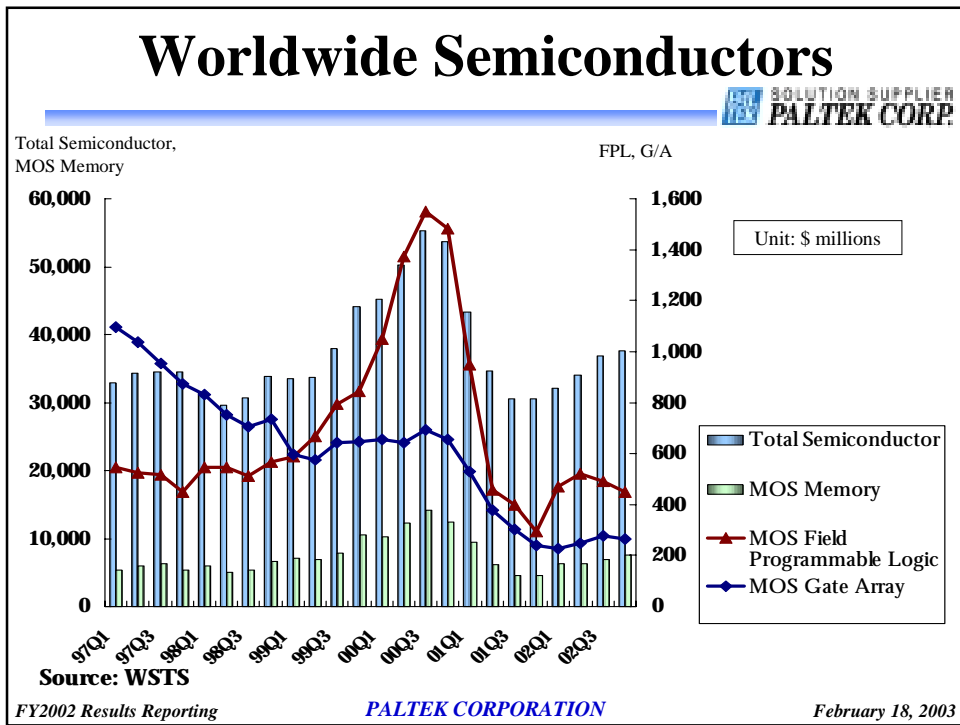
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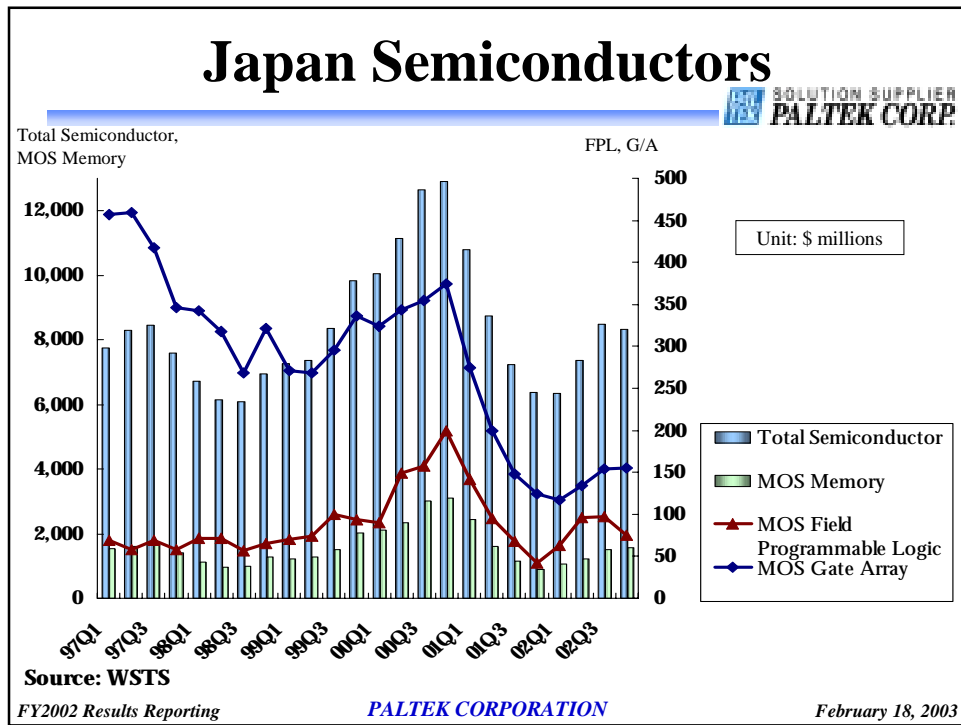
## *Part V*

# *Attachments*

## **Agenda**

- Semiconductor Market Trends
  - Worldwide / Americas / Japan
- Subsidiaries Companies
- Definition of Applications
- Definition of the assumption for the forecast





## Alpha Electronics, Inc.

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**ALPHA** **フィル電子株式会社** INC.

<http://www.alpha-denshi.co.jp/>

<b>Name:</b>	Alpha Electronics, Inc.
<b>Established:</b>	September 1974
<b>Headquarters:</b>	1-14-33 Esaka, Suita-shi, Osaka
<b>Capital:</b>	97.2 Million Yen (As of December 31)
<b>Capital Ratio:</b>	88.8%
<b>Acquisition:</b>	October 1998
<b>President:</b>	Keizo Inoue
<b>Business:</b>	Bridgehead in Kansai region for PALTEK group Product Offerings include semiconductors, electronic components, and system equipment
<b>Products:</b>	National Semiconductor, Altera,  Sophia Systems, Alpha Electronics Corp.

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# Spinnaker Systems, Inc.

SOLUTION SUPPLIER  
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<http://www.spinnaker.co.jp/>

<b>Name:</b>	Spinnaker Systems, Inc.
<b>Established:</b>	October 1, 1995
<b>Headquarters:</b>	Hachobori SF bldg. 5F 3-12-8 Hachobori, Chuo-ku Tokyo 104-0033 Japan
<b>Capital:</b>	245.5 Million Yen (As of December 31)
<b>Capital Ratio:</b>	100%
<b>Acquisition:</b>	June 2000
<b>President:</b>	Isao Tanabe
<b>Business:</b>	<ul style="list-style-type: none"><li>• EDA Software</li><li>• IP (Intellectual Property) Design</li><li>• Technology Consultant</li><li>• SoC Design Support</li></ul>
<b>Business Partners:</b>	Mentor Graphics, Plato Design Systems, Inc. etc

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# axelec Corporation

SOLUTION SUPPLIER  
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<http://www.axelec.net/>

<b>Name:</b>	<i>axelec</i> Corporation
<b>Established:</b>	June 1, 2001
<b>Headquarters:</b>	2-3-19 Shin-Yokohama Kouhoku-ku, Yokohama 222-0033 JAPAN
<b>Capital:</b>	40 Million Yen (As of March 1th)
<b>Capital Ratio:</b>	50% (PALTEK) : 50% (Marubun Corporation)
<b>President:</b>	Yoshio Sakurai
<b>Business:</b>	<i>Provides Total Solutions for the Broadband Network</i> <ul style="list-style-type: none"><li>• Offerings include Hardware, Software, Consulting Services<ul style="list-style-type: none"><li>- SAN (Storage Area Network) Technologies</li><li>- Storage Router Technologies</li><li>- Residential Gateway Technologies</li><li>- Home Networking Technologies</li></ul></li></ul>
<b>Product Lines:</b>	Net Silicon, PLX Technology, ST Microelectronics,

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## Definitions of Applications



Category	Definition
<b>Communication</b>	Applications for communication infrastructure and Broadband Switching, Terminal, Gateway, Routing/IP, Wireless Access
<b>Industry</b>	Applications for digital broadcasting equipments, medical equipments and measurement equipments
<b>EDP/Computer</b>	Applications for computer peripheral devices, storage and imaging devices
<b>Consumer</b>	Applications for mobile phones, DSCs, audios and game consoles






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## Prerequisites for Forecast



	<b>Market is in favorable condition</b>
	<b>Market shows the sign of recovery and upward tendency</b>
	<b>Market shows steady demand</b>
	<b>Market shows the sign of deterioration and downward tendency</b>
	<b>Market is in bad condition</b>

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